

WATER/ABJ/HJL:jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4432

October 16, 2003

R E S O L U T I O N

**(RES. W-4432), CALIFORNIA WATER SERVICE COMPANY
(CWS), BAKERSFIELD DISTRICT. ORDER AUTHORIZING A
RATE BASE AND EXPENSE OFFSET REVENUE INCREASE OF
\$4,228,263 OR 12.88% ADDITIONAL ANNUAL REVENUE.**

SUMMARY

By Advice Letter No. 1552, filed July 25, 2003, CWS seeks to increase rates to reflect an increase in rate base and operating cost for the completion of its Northeast Bakersfield Water Supply Project (NBWSP). This resolution grants CWS' request for authority to increase rates by \$2,549,701 or 7.76% to cover the authorized rate of return on the invested capital and increased operating costs. Further, this resolution authorizes an additional increase of \$1,678,562 or 5.11% no earlier than January 1, 2004, to cover depreciation expense and ad valorem taxes associated with the completed treatment plant facility. The increase will not result in a rate of return greater than last authorized for CWS' Bakersfield District.

BACKGROUND

CWS filed this advice letter in accordance with Decision (D.) 01-08-039. Ordering Paragraph 6 which authorized CWS "to file advice letters seeking to recover in rates the reasonable costs of the capital additions specified in the stipulation for the Bakersfield and South San Francisco Districts.

Section 7.05 of the stipulation approved in D.01-08-039 states, in part:

“....the Parties agree that CWSC should be authorized to file three advice letters for the revenue requirement associated with the incremental cost of the treatment plant, including labor, operating expenses, and interest during construction (IDC). Furthermore, the Parties agree that one advice letter may be filed in 2002, a second in 2003, and the third after the treatment plant is in service. Moreover, for the advice letters only, the capital costs should be limited to \$31.0 million, not including IDC. ...”

CWS is constructing a large state-of-the-art micro filtration water treatment plant in northeast Bakersfield to improve water quality and augment water supply. This request is the third to be filed in compliance with D.01-08-039 to recover capital investment costs and incremental operating costs for the new facility. The plant was completed and placed in service in July 2003.

The current rates were established on April 8, 2003, pursuant to Advice Letter No. 1541 that authorized the second rate base offset for the Bakersfield treatment plant of \$1,894,396 or 2.77%.

DISCUSSION

CWS indicates that its Bakersfield District will be severely impacted by the new state and federal standards for arsenic, with an expected loss of ten to fifteen million gallons of daily groundwater supply. In addition, the district is growing, and needs new sources to ensure that Bakersfield District can meet its future water supply needs. The California Department of Health Services' (DHS) Drinking Water Field Operations Branch has verified the above information with the Commission's Water Division (Division).

The NBWSP authorized in D.01-08-039 will improve water quality and supply for the 57,000 customers in CWS' Bakersfield District by allowing CWS to substitute surface water for groundwater. CWS has constructed, in cooperation with the City of Bakersfield, a twenty million-gallon per day micro filtration water treatment plant and associated facilities to deliver water to customers.

The advice letters (AL 1513, AL 1541, AL 1552) show that CWS has expended \$32,408,513 as of December 31, 2002, more than the limit for the advice letters of

\$31,000,000 plus interest during construction. Therefore, the request had been limited to cover only \$31 million plus interest during construction. Under CWS' adopted accounting policies, depreciation does not accrue until January 2004, so on revenue requirement for depreciation is to be added on that date (Special Condition 3, Sheet 5792-W and Special Condition 7, Sheet 5793-W). Operating costs have increased as a result of hiring five operations personnel and because of higher water costs. The staffing plan was approved by the DHS.

The Division analyzed CWS' request, supporting workpapers, and supplementary data, and concurred with CWS' estimates.

At the proposed rates, the monthly bill for a 5/8 x 3/4-inch metered customer using 27 Ccf (One Ccf is equal to one hundred cubic feet) of water will increase by \$3.53 from \$34.19 to \$37.72.

CWS is currently earning a rate of return of 7.83% on a recorded basis and 9.25% on a pro forma basis, which is above its adjusted authorized rate of return of 9.17%. This earning over the pro-forma limit resulted in a \$91,200 reduction in CWS' attrition filing. The increase in this resolution should not be affected.

SERVICE NOTICE AND PROTESTS

Notice of the proposed rate increase was published in a local paper in the same manner as required for a formal application. In addition, because the advice letter requests more than a 10% increase in average rates, individual notices of the filing were mailed to customers with bills beginning August 8, 2003. No protests were received. Service is satisfactory.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements.

The utility has been filing annual reports as required.

FINDINGS AND CONCLUSIONS

1. CWSC was authorized to file the advice letter for the revenue requirement associated with the incremental cost of the treatment plant by Decision 01-08-039.

2. CWSC filed this advice letter in compliance with Decision 01-08-039.
3. After investigation by Division, the rates contained in Advice Letter 1552 are reasonable and should be approved.

THEREFORE IT IS ORDERED THAT:

1. California Water Service Company, Bakersfield District, is authorized to make effective the revised rate schedules BK-1, General Metered Service, and BK-2R, Residential Flat Rate Service, attached to Advice Letter No. 1552, and concurrently to cancel its presently effective rate schedules. The effective date of the revised rate schedules shall be five days after the effective date of this resolution.
2. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on October 16, 2003; the following Commissioners voting favorably thereon.

WILLIAM AHERN
Executive Director

MICHAEL R. PEEVEY
President

CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners